

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

SUPPLEMENTAL FEDERAL FINANCIAL
ASSISTANCE REPORTS

YEAR ENDED JUNE 30, 2008

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

November 25, 2008

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

The Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* and the Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards of the South Carolina Department of Transportation for the fiscal year ended June 30, 2008, were issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with the basic financial statements of the South Carolina Department of Transportation for the fiscal year ended June 30, 2008, issued by Scott McElveen, L.L.P., Certified Public Accountants, dated October 15, 2008.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

TABLE OF CONTENTS

Supplemental Federal Financial Assistance Reports

Schedule of Expenditures of Federal Awards.....	1
Note to Schedule of Expenditures of Federal Awards.....	2
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	5-7
Schedule of Findings and Questioned Costs.....	8-13
Summary Schedule of Prior Audit Findings	14
Department Response	15-18

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor / Program Title	Federal CFDA Number	Total Federal Expenditures	Expenditures To Subrecipients
Direct Programs:			
U.S. Department of Transportation			
Highway Planning and Construction	20.205	\$ 371,197,237	\$ 16,169,720
Federal Transit - Capital Investment Grants	20.500	9,176,671	9,176,671
Federal Transit - Metropolitan Planning Grants	20.505	482,941	482,941
Formula Grants for Other Than Urbanized Areas	20.509	8,961,949	8,042,902
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,908,478	1,713,423
State Planning and Research	20.515	<u>1,388</u>	<u>1,388</u>
Total Direct Programs		391,728,664	35,587,045
Indirect Programs:			
Federal Emergency Management Agency			
Passed Through SC Emergency Preparedness Public Assistance Grants	83.544	<u>720,211</u>	<u>-</u>
Totals		<u>\$ 392,448,875</u>	<u>\$ 35,587,045</u>

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

1. Basis of Presentation:

The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of *OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations* (as amended).

The financial information shown in the Schedule of Expenditures of Federal Awards reflects amounts recorded by the South Carolina Department of Transportation during its fiscal year July 1, 2007 through June 30, 2008. This information is presented on the accrual basis of accounting.

**Report on Internal Control over
Financial Reporting and on Compliance and Other Matters based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department") as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 15, 2008. Our report was modified to include a reference to other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Connector 2000 Association, Inc., as described in our report on the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider deficiencies 2008-1 through 2008-3 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the State Auditor, the Governor of the State of South Carolina, commission members, and management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
October 15, 2008

**Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in Accordance with *OMB Circular A-133***

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of South Carolina Department of Transportation (the “Department”) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department’s management. Our responsibility is to express an opinion on the Department’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department’s compliance with those requirements.

As described in items 2008-4 and 2008-5 in the accompanying schedule of findings and questioned costs, the Department did not comply with certain requirements regarding subrecipient monitoring that are applicable to its Highway Planning and Construction (CFDA 20.205) and Federal Transit – Capital Investment Grants (CFDA 20.500), and reporting that are applicable to Federal Transit – Capital Investment Grants (CFDA 20.500). Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, except for the items of noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008 – 4 and 2008 – 5 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008 – 4 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Department as of and for the year ended June 30, 2008, and have issued our report thereon dated October 15, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the State Auditor, the Governor of the State of South Carolina, commission members and management of the Department, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
November 24, 2008

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

Section I—Summary of Auditors' Results

Financial Statements

- | | | |
|----|---|------------------------------|
| 1. | Type of auditor's report issued: | Unqualified Opinion |
| 2. | Internal control over financial reporting: | |
| | Material weakness identified: | _____ yes <u> x </u> no |
| | Significant deficiency identified not considered to be a material weaknesses? | <u> x </u> yes _____ no |
| 3. | Noncompliance material to the Financial Statements noted? | _____ yes <u> x </u> no |

Federal Awards

- | | | |
|----|---|------------------------------|
| 4. | Internal control over major programs: | |
| | Material weaknesses identified: | <u> x </u> yes _____ no |
| | Significant deficiency identified not considered to be a material weakness? | <u> x </u> yes _____ no |
| 5. | Type of auditor's report on compliance for major programs: | Qualified Opinion |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | <u> x </u> yes _____ no |
| 7. | Identification of major programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction
20.509	Formula Grants for Other than Urbanized Areas
20.500	Federal Transit – Capital Investment Grants

- | | | |
|----|---|--------------------------|
| 8. | Dollar threshold used to be distinguished between Type A and Type B Programs: | \$3,000,000 |
| 9. | Auditee qualified as low-risk auditee? | _____yes <u> x </u> no |

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Section II- Financial Statement Findings

Conditions Considered to be Significant Deficiencies but Not Material Weaknesses

2008-1 Review and Reconciliation of Participation Revenues and Receivables Schedule to the Financial Statements

Condition:

The Department provided the auditors with an internally prepared participation agreement schedule (the “schedule”). This schedule is used to record the receivables, revenue, and deferred revenue related to participation by various third-parties in the payment of infrastructure and maintenance projects. The schedule provided to us was not reviewed or reconciled to the Department’s financial statements or trial balance. Upon further inspection, it was discovered that an adjusting entry needed to be made in order to correctly state the Department’s financial statements.

Cause:

The schedule was prepared by a member of management, but not reviewed or reconciled to the financial statements prior to providing this schedule to the Department’s auditors.

Effect:

Revenue and receivables were both overstated by approximately \$3.5 million.

Criteria:

Good internal controls require that all schedules supporting amounts be reviewed and reconciled to amounts reported in the Department’s financial statements or trial balance.

Recommendation:

We recommend that the Department consider improving its quality control process relating to the participation agreement schedule. This process should include reconciling this schedule to the trial balance and resulting financial statements and the reconciliation should be reviewed and documented by the reviewer’s initials and date reviewed.

2008-2 Improve Upon the Department's Quality Control Procedures over the Financial Reporting Function

Condition:

Interest expense and accrued interest payable due relating to the multi-project loan with the South Carolina Transportation Infrastructure Bank were not reconciled to the amortization schedule before it was included in the Department's financial statements. Additionally, related to this, the Department's year-end financial statement preparation process does not have an adequate review function.

Cause:

The Department does not have an adequate review process in certain areas.

Effect:

Interest expense and accrued interest payable were both understated by approximately \$2.4 million. Additionally, certain other less material errors in the Department's financial statements were discovered upon auditor review.

Criteria:

The Department should have a review process that detects most errors made during the financial reporting process.

Recommendation:

The Department does a very good job in preparing its year-end documentation and related financial statements and has made significant strides over the last several years to improve this process. We commend management and the staff of the Department in their efforts to produce both accurate and reliable documentation in their preparation of the Department's financial statements. We acknowledge that assimilating this information for an entity with the size and complexity of the Department is not a simple task.

Most year-end accounting documentation is subject to a review process by the Department's accounting staff. We recommend that the Department consider further improving its controls in this area by making sure that all documentation prepared by the accounting department during the year-end close, including the year-end financial statements, is reviewed by a management from the Department's finance staff. This review should be documented with the reviewer's initials and date reviewed. This additional review would add another level of quality to the Department's year-end accounting and financial reporting process.

2008-3 Segregation of Duties – Pay Rate Authorization and Payroll Program Access

Condition:

Currently, several employees in the Human Resources department have the authority to approve salary, wage rates, and other critical payroll data. The same employees also have the ability to execute changes to salary, wage rates, and critical payroll data. In addition, individuals in the Information Technology department have the ability to access and make changes to payroll information.

Cause:

Job descriptions and normal duties performed allow the employees to have payroll approval authority, change execution, and program access.

Effect:

Lack of segregation of duties for payroll approval and program changes exposes the Department to risk of improper payroll transactions and results in a lower level of safeguarding of the Department's cash.

Criteria:

Good internal control practices dictate that individuals should not have the ability to both approve pay rates and make changes within the payroll system. In addition, individuals who do not have a need to access certain information should not be allowed access.

Recommendation:

We understand that the Department is aware of this situation and is in the process of making the necessary changes to ensure a proper segregation of duties in its payroll function.

Section III- Federal Award Findings and Questioned Costs

Condition Considered to be a Material Weakness

2008-4 Improve Subrecipient Monitoring and Communication Impacting CFDA Numbers 20.205 and 20.500

Condition:

The Department currently does not have adequate controls in place to effectively monitor certain of its subrecipients. Additionally, the Department was not, in certain cases, identifying the CFDA Number to its subrecipients at the time of the award. Both of these issues related to the Transportation Enhancements Program of the Department (CFDA 20.205). The CFDA funding source identification also related to Federal Transit – Capital Investments Grants (CFDA 20.500).

Cause:

The Transportation Enhancement Program department has not been effectively communicating these programs to the external audit department so that the monitoring can be performed. Additionally, the Department does not have adequate controls in place to ensure that the Federal guidelines are followed involving the communication of the CFDA number to the entities receiving the pass through award.

Effect:

The Department did not monitor the Transportation Enhancement program recipients. In addition, certain amounts were awarded by the Department without properly identifying the CFDA Number of the source funds to certain subrecipients.

Criteria:

The Department did not meet the following governing requirements (*OMB Circular A-133 §.400(d)*) in a timely manner:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in *OMB Circular A-133* have met the audit requirements of *OMB Circular A-133* and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.

Recommendation:

We understand that the Department is aware of this issue and is in the process of making changes to its subrecipient monitoring and communication processes.

Condition Considered to be Significant Deficiency but not a Material Weakness

2008-5 Timely File Report of Disadvantaged Business Enterprises (DBE) Awards or Commitments and Payments (“the Report”) Impacting CFDA # 20.500

Condition:

The Department has been filing this report only on an annual basis while federal guidelines state that this report is due semi-annually.

Cause:

This is due to an oversight of the Department.

Effect:

The Department did not timely submit the reports due December 1, 2007 and June 1, 2008.

Criteria:

To monitor the progress of the DBE program, the recipient is required to submit semi-annual reports based on a recordkeeping system per federal guidelines.

Recommendation:

One of the reporting requirements of this program requires that this form be submitted semi-annually. The Department is currently submitting this form only on an annual basis. The Department should consider implementing policies and procedures to ensure compliance with this federal requirement.

Summary Schedule of Prior Audit Findings:

During the current year audit, we reviewed the status of corrective action taken on the Financial Statement Findings and Federal Award Findings and Questioned Costs as reported in our prior year's reports on internal control and compliance of the Department dated October 1, 2007 and November 24, 2008, respectively, resulting from the audits of the financial statements and major programs for the year ended June 30, 2007. We found that adequate corrective action was taken for all of the management letter comments, findings and questioned costs except for items 2007-1 and 2007-3, which have been repeated above as comments 2008-1 and 2008-4, respectively.



South Carolina
Department of Transportation

CORRECTIVE ACTION PLAN

November 24, 2008

Richard H. Gilbert, Jr., CPA .
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert;

The South Carolina Department of Transportation respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

The Plan outlines actions taken, or to be taken, to address each significant deficiency and material weakness contained in the audit report prepared by Scott McElveen, LLP dated October 15, 2008 (financial statements and GAS Report) and November 24, 2008 (OMB Circular A-133 Report). The Department takes the recommendations of the Auditor seriously and views them as an opportunity to make improvements in controls and reporting. Each audit recommendation is repeated prior to our response and numbered as in the audit report.

Financial Statement Findings

Condition Considered to be Significant Deficiencies but Not Material Weaknesses

2008-1 Review and Reconciliation of Participation Revenues and Receivables Schedule to the Financial Statements.

Condition:

The Department provided the auditors with an internally prepared participation agreement schedule (the "schedule"). This schedule is used to record the receivables, revenue, and deferred revenue related to participation by various third-parties in the payment of infrastructure and maintenance projects. The schedule provided to us was not reviewed or reconciled to the Department's financial statements or trial balance. Upon further inspection, it was discovered that an adjusting entry needed to be made in order to correctly state the Department's financial statements.

Recommendation:

We recommend that the Department consider improving its quality control process relating to the participation agreement schedule. This process should include reconciling this schedule to the trial balance and resulting financial statements and the reconciliation should be reviewed and documented by the reviewer's initials and date reviewed.

Corrective Action

The accounting department concurs with the recommendation to thoroughly review and sign off on the participation schedule prepared at year end for the audit as well as reconcile the amounts from the schedule to the trial balance and financial statements. The schedule will continue to be prepared by a member of management and will be reviewed by an additional member of the management staff. The accounting department is also revising the procedures to record all participation revenues as deferred revenues through out the fiscal year and adjust for actual amount earned at year-end which should reduce propensity for error.

2008-2 Improve Upon the Department's Quality Control Procedures for the Financial Reporting Function.

Condition:

Interest expense and accrued interest payable due relating to the multi-project loan with the South Carolina Transportation Infrastructure Bank were not reconciled to the amortization schedule before it was included in the Department's financial statements. Additionally, related to this, the Department's year-end financial statement preparation process does not have an adequate review function.

Recommendation:

The Department does a very good job in preparing its year-end documentation and related financial statements and has made significant strides over the last several years to improve this process. We commend management and the staff of the Department in their efforts to produce both accurate and reliable documentation in their preparation of the Department's financial statements. We acknowledge that assimilating this information for an entity with the size and complexity of the Department is not a simple task.

Most year-end accounting documentation is subject to a review process by the Department's accounting staff. We recommend that the Department consider further improving its controls in this area by making sure that all documentation prepared by the accounting department during the year-end close, including the year-end financial statements, is reviewed by management from the Department's finance staff. This review should be documented with the reviewer's initials and date reviewed. This additional review would add another level of quality to the Department's year-end accounting and financial reporting process.

Corrective Action

The department concurs with the recommendation and has begun to write procedures for financial statement preparation and review, note and schedule preparation and review, and overall quality control review, and will have the procedures in place by the June 30, 2009. The reviews will be done prior to providing draft financial statements to the auditors. It is the intent of the Department to produce as accurate as possible financial statements.

2008-3 Segregation of Duties – Pay rate authorizations and payroll programs access

Recommendation:

We also understand that the Department is aware of this situation and is in the process of making the necessary changes to ensure a proper segregation of duties in its payroll function.

Corrective Action

The Department has reviewed the pay rate change procedures in the Human Resource and Information Technology areas and has already implemented the following changes:

- A report will be produced each day on pay rate changes whether performed by IT or Human Resources that will contain the old pay rate, new pay rate, date and time of change, and identify the individual who entered or initiated the pay rate change.
- The report will be sent to the Human Resources Director for review and signature. The report will be matched against the personnel action request.

Federal Award Findings and Questions Costs

Condition Considered to be a Material Weakness

2008-4 Improve Subrecipient Monitoring and Communication impacting CFDA Numbers 20.205 and 20.500

Condition:

The Department currently does not have adequate controls in place to effectively monitor certain of its subrecipients. Additionally, the Department was not, in certain cases, identifying the CFDA number to its subrecipients at the time of award. Both of these issues related to the Transportation Enhancement Program of the Department (CFDA 20.205). The CFDA funding source identification is also related to Federal Transit – Capital Investments Grants (20.500).

Recommendation:

We understand that the Department is aware of this issue and is in the process of making changes to its subrecipient monitoring and communication processes.

Corrective Action

SCDOT has traditionally depended on the certification of subrecipients, contained in a duly executed participation agreement, that all contractual requirements relating to state and federal procurement and administration will be followed. However, project audits often identified deficiencies. Because of this, in February 2008, the Department began researching and developing draft policies and procedures for improving future program efficiencies and documentation of compliance for all state and federal projects being administered by subrecipients. A working group was also assigned the responsibility of identifying deficiencies and gathering documentation related to the administration of ongoing projects.

The required information for each file includes:

- Identification of CFDA number and documentation providing number to subrecipient to be included in the agreement.
- Basis for determining that the LPA was qualified, equipped and staffed to administer the project.
- A finding that the project is eligible for federal Transportation Enhancement funding or other funding sources as approved by SCDOT and FHWA.
- PS&E (Plans, Specification, & Estimate) package for use in obtaining federal approval of authorization.
- Encroachment Permits
- NEPA Document (Environmental Permits)
- Right of Way Certification

- Design Plans
- Copy of Construction Engineering Design
- Copy of Advertisement printed in South Carolina Business Opportunities (SCBO) and supporting documentation that SCDOT pre-approved bid documents and advertisements.
- Certification that Procurement Documents ("bid documents") for contractors and consultants meet all federal laws, rules and regulations
- Copy of Bid Tabulations and documentation that SCDOT pre-approved contract awards by Local Public Agencies.
- Documentation that project modifications were reviewed by the appropriate SCDOT office contract manager for eligibility, environmental clearance, and approved prior to execution of work.

The agency is in the process of developing new policies and procedures to ensure that subrecipients have complied with all applicable state and federal laws, rules and regulations, and that documentation of compliance is retained in central SCDOT files for ongoing projects. The new policies and procedures are expected to be considered by the Commission in December 2008.

Also, all contracts for Federal Transit grants have been modified to include the CFDA number as required.

Condition Considered to be Significant Deficiency but Not a Material Weakness

2008-5 Timely File Report of Disadvantaged Business Enterprises (DBE) Awards or commitments and Payments ("the Report") Impacting CFDA # 20.500

Condition:

The Department has been filing this report only on an annual basis while federal guidelines state that this report is due semi-annually.

Recommendation:

One of the reporting requirements of this program requires that this form be submitted semi-annually. The Department is currently submitting this form only on an annual basis. The Department should consider implementing policies and procedures to ensure compliance with this federal requirement.

Corrective Action

The Department concurs with the recommendation and has taken steps to add additional staff to the DBE office to accumulate the necessary information to file the report on a semi-annual basis.



Angela R. Feaster, CGFO
Controller

cc.ScottMcElveen